

March 22, 2005

TO: Wisconsin Potential Study Advisory Committee and Stakeholders

FROM: Scott Pigg, ECW

RE: Model Market Write-up

We have completed our series of open meetings for input and discussion on the 36 markets in the potential study. These meetings were very valuable, and we appreciate the contributions made by those who attended.

The next step in the project is to complete our research and prepare draft write-ups and input assumptions for the program approaches for each market. Toward that end, I have attached a draft write-up for one market (residential furnaces) that will serve as a model in preparing the remaining write-ups.

If you have any concerns about the format or level of detail for this model, please provide feedback to me by Wednesday, March 30. After that date, we will need to move forward with these write-ups in order to provide drafts of all markets by the beginning of May. (Note that you will be able to comment on substantive aspects of this market in May with the other draft write-ups—our main concern at the moment is format and level of detail.)

I would also like to note a couple of proposed adjustments to our approach. First, the stakeholder meetings revealed a broad array of program options and approaches to conceptualizing the markets in the study. It would be difficult (and counterproductive) to force a common set of model inputs across this variety. We therefore intend to adopt a flexible approach to modeling each market. Thus, while the broad categories of inputs (per-unit impacts, program participation, etc.) will generally be common across the markets, the number of specific inputs will vary and are likely to differ from those shown in the attached model write up. The outputs for each program approach (year by year estimates of program costs and impacts) will be standardized in the format shown in the model.

Second, our original methodology write-up noted that broad market effects might be possible for some markets, and we would provide study results with and without these market effects. We had proposed to model them separately because of the potentially large uncertainty in their magnitude. We no longer believe that such separation is needed. Market effects beyond immediate program participants can be divided into program effects that occur concurrently with program implementation, and possible long-term market transformation that persists after programs are reduced or withdrawn. In

terms of the former, we believe that in most cases the uncertainty involved in assessing these is not substantially greater than that in assessing other aspects of net program impacts such as free ridership. With regard market effects from lasting market transformation, it is difficult for us to incorporate these into the analysis, since our study is concerned with assessing potential impacts arising from program spending over a given time horizon. Assessing transformational impacts that extend beyond the life of the programs would require artificially reducing or phasing out programs within the 5-year horizon that is the primary focus of the study.

Third, the stakeholder discussions regarding the renewables markets highlighted a number of unique institutional and regulatory barriers to achievable potential in these markets. These barriers can be important inhibitors to achievable potential, but addressing them is somewhat external to our study, which seeks to quantify the potential associated with programs. We therefore propose to provide results for renewables under two scenarios: (a) assuming the current institutional/regulatory environment; and, (b) assuming the removal of an identified set of key regulatory and institutional barriers.

If you have any concerns about these methodology adjustments, please let me know by Wednesday, March 30.

